Randy Martin

Politics beyond the Commodity Form

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The last four years of Randy Martin's life were the years of our friendship and collaboration, cut short by his diagnosis of brain cancer in September 2013. This article describes how our project began and how far it progressed during our sometimes frantic effort to complete it before Randy died in January 2015. I continue with a sketch of how, since his death, I have developed our ideas in my forthcoming book, provisionally titled *Justice as an Option: Historical Redress in an Age of Finance*.[1]

I first came to know Randy because I invited him to speak at my university in 2010 after reading his pioneering work on financialization as a topic for cultural studies. It is largely because of that work that scholars of humanities and social sciences have been able to see the social logic of derivatives, hedging, and portfolio management operating everywhere—much as they once saw the social logic of commodity fetishism through the work of critical theorists like Fredric Jameson, who had recognized, by the late twentieth century, that the financial sector had taken control of large portions of the so-called real economy.[2] Randy's twenty-first-century intervention was to identify a cultural shift in which the idea of self-ownership that grounded neoliberal theories of human capital was superseded by a conception of the self as, essentially, a strategy for creating and rehedging its options in a world of ever-changing risk. Stated in the language of Marx's *Grundrisse*: Randy showed that the formal subsumption of capitalist production to the demands of financiers had become a real subsumption in which the logic of financialization, rather than of commodification, was taking over the meaning of subjectivity and selfhood under capitalism.[3]

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For Randy, the fully financialized self is now a portfolio of assets with ever-changing exposures to risk and opportunity that must be actively managed over the course of a lifetime in response to inherently uncertain future conditions. He described this sense of selfhood as essentially insecure and precarious—always struggling to stay on its feet as the ground shifts below. Randy, as a choreographer, saw this new subjective orientation to precarity as mode of embodiment—what he called a "kinestheme" rather than merely an episteme—because in the dances he loved the performers are never not falling down. His conception of sociality as itself a "precarious dance"—and of dance as, ultimately, a "derivative sociality"—is, of course, the contribution to cultural studies for which Randy is best known.[4]

Perhaps fewer of his readers know that in the last four years of his life Randy moved from discovering cultural analogues to financial derivatives (what he called the derivative "form" as an element in our broader culture) to the study of financial derivatives themselves as they function within the economy. He had begun to see that his earlier social understanding of derivatives could be deployed in political struggles for historical justice within capitalist states that had been gripped by the logic of financialization. Justice, he thought, can be made more present—more embodied, more actionable—if it is reframed through a new social and political understanding of the manufacture and pricing of options.

This was the point at which our collaboration began.

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Our work together would have been impossible had we not begun with a shared perspective arising from an academic milieu of Hegelianized Marxism qualified by exposure to Foucault and Deleuze. This hybrid viewpoint led us to see the market that Marx analyzed as a discipline that governed and supported life. The distinctive feature of our approach was to consider together the ideas of value (supporting life) that Marx developed and of liquidity (supporting markets) that are stressed in modern finance.[5]

We saw these conjoined concepts, value and liquidity, as social emanations of the institution of money as it develops within capitalism.[6] The value form identified by Marx was still the abstraction that allows the ready substitutability of one thing for another in social transactions based on monetarily equivalent exchange. But under financialized capitalism, liquidity preference—the prototypical option form identified by Keynes—is based on the equally abstract assumption that in a capitalist market having money is desirable because it makes value liquid and that the liquidity of value is desirable in and of itself.[7] Financial liquidity is here a further social good arising out of the commensurability of all other goods that pass through the value form.[8]

Randy and I were both aware, however, that such a formulation could be reduced to the accurate, as far as it goes, statement that the exchange of money is simply a social precondition for using markets to support and reproduce life—and that the liquidity that results will then be viewed as a positive externality, or free good, thrown off by the existence of markets themselves. Even the Chicago school of economics could be paraphrased as thinking that it's a good thing that markets happen to support life and that life happens to support markets. Unlike the Chicago school, however, we believed that adequately theorizing the relation of value and liquidity meant going beyond methodological individualism to focus on the transpersonal aspects of finance as a discourse.

In this approach, we were aligned with others. Several scholars had analyzed the social pervasiveness of "valuation" ideas from finance through Foucault's concept of "biopolitics," as an extension of the neoliberal trope of self-ownership. Others had distinguished the biopoliticization of everyday life from its "biofinancialization," in which a precarious self must constantly rebalance and hedge because of new information.[10] Randy, as a former professional dancer, saw strong similarities between the constant rehedging of portfolios, the flexible rebalancing of jobs, and the "precarious" choreography of postmodern dance.[11] As a sometime-philosopher, I insisted that, generalizing from past experience, a plausible prediction we can make about the future is that something unforeseen will have happened before then. This is why optionality has economic value.

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Before we met in 2010, Randy and I had both come to think—for largely political reasons—that the time had come to articulate more fully the relation between value and liquidity at the fundamental level of theorizing what capitalism is today.[12] First, however, we needed to decide for ourselves how closely to follow Marx's own writings on the question of finance.

Marx had, of course, stressed production. He saw industrialized capitalism as the development of a historically specific stage of capitalist production. He saw it as the materialization of an abstract dynamic that he was the first to name and explore: the pursuit of relative surplus value. It was this dynamic that introduced a bias in capitalist development in favor of labor-saving technology. Even when labor was abundant, the logic of relative surplus value had made it both possible and necessary for capital accumulation to take the form of increased investment in producer goods. This resulted in higher production with a decreasing proportion of the cost paid out as wages. Even as the industrialization of capitalism was occurring, Marx saw that certain key industries—coal, but also railways and steel—were logistical choke points on which the entire mode of production was coming to depend. These choke points gave workers in those industries an inordinate power to shut the whole economy down through organized collective action. At various times Marx implied that a militant subjectivity could be created in workers whose hands were on those choke points if they had greater knowledge of how the system as a whole depended on them. This, he said, would make them aware of a power that they were not yet exercising and that the system would have to self-consciously repress as the workers became more aware of it. Marx had identified a potential site of militant class struggle and a role for the theory he was developing to shape that struggle on the workers' behalf.

Randy and I initially found ourselves saying something similar about finance as a choke point by focusing on capitalism as a mode of accumulation that is sustained by the more or less precarious liquidity of financial markets. Years earlier, in the 1930s, Adolf Berle Jr. and Victoria Pederson defined liquidity as whatever makes the accumulation/preservation of wealth "acceptable" in a capitalist society. By *acceptable* they meant convertible into money.[13] Our own choice to focus on liquidity was meant to highlight the political vulnerability of financial markets themselves, which may disappear almost instantly, reducing the accumulation of value they contain to zero. We thus saw finance's role in creating value from awareness of potential threats to liquidity as inextricably tied to making its continuing existence politically contingent—and thus subject to subversion, manipulation, and sabotage. This point about liquidity paralleled what Marx taught about the forms of politics that leverage vulnerabilities in the mode of production. Here, Randy and I wanted to move beyond Marx, but remain in his spirit, by talking about forms of politics that leverage vulnerabilities in the capitalist mode of accumulation through the intermediation of financial markets.

We had no doubt that in repoliticizing the technologies of wealth preservation, we are also talking about the historical component of justice. This is the component in which the aftereffects of past injustice compound, rather than dissipating, with the passage of time. Not all injustices ramify and intensify over time—some are not deepened by the machinery of capital accumulation. But those that are become historically more important for that very reason and must be a central concern for a Marxist politics today. Our approach was thus to show how modern financial concepts fit into Marx's ideas in ways that once again connected them to the pursuit of historical justice. To do this we had to both depart from and return to Marx on the central importance of funding, of the discipline of payments, in capitalism.

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In his analysis of capitalism, the market's mediation of both production and consumption depends on the discipline of payments and thus on the need to come up with money that one doesn't already have.[14]

The difference between Marx's approach and that of modern finance, however, is that Marx regarded the availability of funds—perhaps originally in the form of coin—as theoretically exogenous, or prior to, capitalism itself. Contemporary financial theory, by contrast, makes the need for funding endogenous to its account of both production and consumption. Among its central, and most counterintuitive, insights are the following:

1. You can get money by selling something you don't own (short selling).
2. You can buy something by borrowing money you don't have (leverage).

The first financial operation, short selling, differs from stealing something and then "fencing" it for reasons related to class. In finance you borrow it, rather than stealing, and can eventually return it after buying it back at whatever its future price happens to be. The second operation, leveraging, can also be compared with theft when seen through the lens of class. Here, you have paid with someone else's money—borrowed to be sure—but your creditors are then obliged (if the loan has been secured) to accept the thing you have bought in satisfaction of the loan if you cannot come up with the money to pay them back.

Marx showed that, even in the most brutal forms of capitalism, people who cannot get money by shorting property or using it to secure a loan are thus "free" to work for the money they need—though any money they receive must be immediately spent if they are to continue surviving in such freedom. As free laborers they cannot be forced to work without pay, but neither can they collateralize and borrow against their labor power as a source of funds because their enslavement is not permitted in the event of default. So, our Marxist reading of these first two operations was thus that not everyone qualifies for them because of the role of the distinction between wage labor and capital in the capitalist mode of production. The effect of capitalist finance, the discipline of payments, in reproducing this class divide thus defines a constitutive exception to the first two operations and implies the existence of a third, meta-operation.

3. The legal distinction between non-collateralizable human labor power and other commodities subject to the discipline of payments creates a class distinction between those who can get money by means of operations 1 and 2 and those who must, rather, work to earn it.

From the financial standpoint of generating funds as needed, the paradigmatic operations of a textbook economy of goods or services can be described as selling something you happen to own in order to get the liquidity that money provides or relinquishing liquidity you happen to have in order to acquire something you want more. This is what happens in an on-the-spot exchange of goods for cash that does not create contingent financial obligations in the future. But a swap of liquidity for something of value can also occur, for example, in which the seller funds your transaction (provides credit), thereby acquiring a debt, perhaps secured by the goods you purchased. As long as either of these transactions is still financed internally by the parties, the discipline of payments could be satisfied without recourse to a secondary market in money and debt: the only difference between the two would be would be the timing and amount of payment in relation to the time of delivery. But, depending on its terms, the unpaid debt might itself be treated as an asset that the creditor could sell to a third party for a price that would depend on the value of the collateral, the interest rate, the creditworthiness of the borrower, and so forth—all of which might have changed in the intervening period.

In such a financial market, there is, moreover, the possibility of entering a forward contract to lend (provide liquidity) at a date in the future at, say, a fixed rate of interest and meet that obligation by borrowing the same amount at the then-prevailing rate of interest. Entering such a swap to provide liquidity might cost nothing today—no money need change hands at the time of the contract. But the funding contract might make either of the parties significantly more or less liquid in the future and getting out of it would then require money to change hands. Forward interest rate swaps like this—exchanges of liquidity—are extremely common: they are the single largest component of the over-the-counter global money market, and their notional value vastly exceeds the size of the global market in goods and services.

The spot exchange of goods and services for cash on hand at a price arrived at through an auction is not a paradigm of capitalist markets. It is a special case that presupposes that a financial market already exists to fund such transactions. But for capitalism to exist, a financial market had to be created, along with the goods and services that some people can acquire only by parting with the liquidity it provides in order to meet the discipline of payments.

But the discipline of payments is not itself enough to explain how such a capitalist market economy could have arisen in the first place. A further, historical account is needed of how those initially without funds managed to generate them—and what real limitations ensure that not everyone can do this all the time. So, when Marx describes what we now call capitalism as a historically specific mode of production based on the purchase and sale of commodities, his task is to explain how capital and wage labor come into a relationship with each other without assuming that the capitalist already owns the means of production or has the money with which to buy them and without assuming that there is already a pool of money available to purchase end products as consumer goods. Viewed through the wider lens of finance, the historical question about a market mode of production and consumption is how to get money when and if one needs to come up with it and whether, and in what ways, one can postpone the need for coming up with money by having something else that one can pledge as security. This discipline of payments is what the financial economist Hyman Minsky would later call capitalism's "survival constraint."[15]

It is from a similar, if implicit, understanding of the discipline of payments that Marx's theorization of the role of capital within capitalism derives much of its power. In a market in which one cannot be enslaved or enserfed by collateralizing oneself, and in which the means of subsistence are always already commodities, wage laborers need jobs that will pay enough for them to come up with money when they need it. This is how Randy and I reframed Marx's first major insight in the language of finance.

Marx's second major insight was that the need for money and the ability to pledge something else to get it were what differentiated the position of capitalists in capitalism from that of wage laborers. This difference became a source of class division in society that superseded the earlier, and more transparently political, divisions between master and slave and between lord and vassal. This formulation simply echoes the famous overture of Marx and Engels in *The Communist Manifesto* of 1848:

> The history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary reconstitution of society at large, or in the common ruin of the contending classes.[16]

In *Capital*, however, Marx modifies this point by locating the capitalist class's collective anxiety about coming up with money in what he called the "realization problem." This is the Minskyan survival constraint that Marx thought to be intrinsic to a stage of capitalism in which the surplus value created by exploiting workers' need to hire out their labor power must be preserved and accumulated through investing in producer goods (rather than, as previously, in land, public debt, bullion, or hoards of cash).

The question underlying everyday capitalist production is whether the increased output that is a by-product of using producer goods as vehicles of accumulation can be "realized" in the form of cash if and when the capitalist needs it to pay off his financiers by selling the end product. If not, the collateral is called to satisfy the debt and collateralized producer goods will have to be sold off in a falling market to raise cash. This leads to widespread business insolvency, unemployment, and the physical precarity of workers whose access to means of subsistence through commodity markets has been cut off. When Marx wrote, these workers could not yet get money in the form of transfer payments or financial credit to fund consumption. Their precarious liquidity made it harder for capitalists to realize the value of their investments in expanding the production of consumer goods.

Marx recognized that the ability—indeed, the imperative—for capitalists to finance productivity growth by pledging both investment goods and end products as collateral was an endogenous source of financial instability. Capitalists' failure to come up with cash—an event of illiquidity—led to a periodic flight of debt holders into cash, which had the perverse effect of increasing credit default rates and lowering the market value of pledged collateral, leading to even more defaulted debt. This is the same thing as saying that, under capitalism, as Marx described it, there was always the threat of a crash in the cash value of pledged collateral.

Randy and I thus became convinced that it was important to understand how a concern with financing both production and consumption lay at the core of Marx's account of both wage labor and capital within capitalism. The results of applying this perspective appear in our contributions to a collaborative book on the social implications of contemporary finance published after his death, titled *Derivatives and the Wealth of Societies*.[17]

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Let me now summarize how far Randy and I got in formulating a Marxism that goes beyond the commodity form in order to account for capitalism's endogenous ability to fund itself.

- We clarified Marx's account of the commodity form to include a distinction between commodities that also function as financial assets from which future funds can still be generated and those that lose their exchange value in use and cannot subsequently be collateralized. Distinguishing between commodities that can and cannot also function as assets explains why producing wage goods for sale is an investment while purchasing and consuming them is not.
- We extended Marx's macroeconomic account of how wage labor funds aggregate consumption to include eligibility for public benefits and also the sale of financial products so that consumer (wage) goods could be purchased on credit. Debt itself could be marketed as a consumer good to households in which wages are no longer a primary funding source. The existence of a liquid market in household debt could then be a requisite

condition for the economic stability of capitalism as a mode of production that depends on its ability to stabilize aggregate economic demand.

- We specified that Marx's account of "absolute surplus value" (essentially Adam Smith and David Ricardo's "labor theory of value") is something that had to be financed to get underway. The capitalist "farmer" in Adam Smith is not Thomas Jefferson's figure of a yeoman farmer who owns the land he works and sells the crop he grows. Smith's farmer," rather, rents land from a feudal lord and borrows the funds needed to do so. Seed, farming implements, and labor could also have been purchased on credit by borrowing against the future value of the commodity produced.[18] An initial ability to collateralize the final product is thus a necessary precondition of accumulating surplus from past production by expanding the labor force and investing in more acreage, seed, and so forth. This is why absolute surplus value is increased through the higher levels of aggregate employment of labor and not by lowering labor costs per unit of output, the effect of which under the labor theory of value is merely to reduce prices.
- We restated Marx's account of "relative surplus value" to show how it reverses the logic of absolute surplus value in which the generic capitalist benefits by favoring technologies that increase employment. In relative surplus value, the generic capitalist creates additional surplus relative to absolute surplus value by lowering the proportion of his production costs attributable to employment. He does this through the implicit use of what would later become the fundamental financial principle of nonarbitrage, also known as the law of one price. This principle, as applied to industries converting raw materials into consumer goods, is that identical finished products consisting of identical materials must sell at the same unit price at the same time regardless of their labor inputs.[19] Labor-saving technology thus creates an arbitrage opportunity with respect to producers' investments in raw materials. This can be extracted by the seller of the finished product until the new technology is generally adopted and is what the classical political economist David Ricardo would have called an economic rent over and above the economic profit from exploiting wage labor. The basis for such a rent is the ability to economize on labor—to use less of it per unit of output—relative to a constant input of raw material.[20] Our restatement of relative surplus value as rent thus diverges from Marx's stress on its similarity to absolute surplus value in that both arise from production, which may have prevented him from stressing with equal force that they differ with respect to vehicles of accumulation, which in relative surplus value consist mainly of produced means of production, such as factories, machinery, and raw materials. (Today, however, the gears of capital accumulation still turn even if the financial vehicles used are not coincidentally producer goods—a point that many followers of Marx have failed to recognize.[21]
- We abstracted from Ricardo on rent and Marx on relative surplus value to understand how securities arranged along a liquidity gradient can become vehicles for capital preservation and accumulation as the demand for finan-

cial products, such as credit, grows. In their theories, land and machinery, respectively, did double duty as means of production and vehicles of accumulation. They tended to come more valuable as asset classes when the demand for agricultural and industrial output grew. Today, financial securities do double duty as vehicles through which wealth accumulates in noncash form while also adding the value of optionality by making that wealth liquid in varying degrees—that is, convertible into cash—without necessarily passing through the market in goods and services.

- We thus identified the fundamental limitation in Marx's otherwise rigorous account of the effect of asset/capital markets on gross domestic product (goods and services). What Marx described as commodity markets (especially the markets in finished products) were presumed to either exist, that is, to have liquidity, or not to exist, to be illiquid. In the latter case the lack of marketability in finished products resulted in a disaccumulation of the wealth preserved in the price of producer goods, which were themselves part of the collateral posted to fund production. If the product could not be sold, the collateral used to fund its production would become illiquid as producer goods were sold into a market with falling demand for them. This description of what economists would now call a collapsing market was for Marx "the realization problem." He could not have anticipated how it is now possible to create purely financial products that are not themselves means of production through which "the realization problem" and other forms of illiquidity can be hedged. Financialization had thus made it necessary, we thought, to update and generalize Marx's account of capitalism's development and vulnerabilities.[22]
- We concluded that such a reconsideration should begin by grasping that capitalism had arrived at a way to manufacture liquidity itself by learning how to price a hedge (or option) that would reduce exposure to market illiqudity. The option, for example, to liquidate an asset at a predetermined price, whichever way the underlying market moves, is on its face a vehicle of value preservation—a form of accumulated wealth—that can be priced, even when it can't be exercised. This option price—a way to harvest the value added by optionality itself—has become the pure kernel of contemporary financial capitalism, subsuming the role the commodity form played in capitalism's period of industrialization.

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Randy and I rather hastily published some early versions of these thoughts about Marx, but our main goal in arriving at the option form was, to put the option of historical justice back on the table as an answer to the policies of austerity that followed the 2008 recession. We thus understood ourselves to be naming the problem of historical justice in the twenty-first century as a contingent claim—or option—on the incremental benefits of past injustice that were attributable to the operation of financial markets in preserving and augmenting the cumulative advantages arising from past injustice. For us, a moment of financial crisis, such as 2008, presented opportunities for extracting a political price for restoring whatever component of capitalist abundance would otherwise be wiped out by the collapse of financial markets. This was a political perspective that Randy and I shared with many Marxists, and others on the socialist and anarchist Left.

Where we differed from most of these potential comrades was in arguing that, for any presently conceivable remedy for historical injustice to be effective, it must also be expressible, initially, in the language the financial sector uses to value accumulated wealth today. We described demands for austerity at moments of financial collapse as arguments that the option of historical justice was worth nothing—exactly zero—at moments when abundance could be restored only through greater "investor confidence." But we saw that these are precisely the moments when the option of historical justice should in principle be worth more rather than less—and is certainly not worth zero—because the rollover of its exercise is expressible as the premium that could be charged for restoring investor confidence. The paradoxical result of the crisis of 2008 was that major financial institutions collected that premium rather than paying it. We believed that such a premium could, rather, have been claimed by others who, through political action, might pose a threat to continuing capital accumulation. But to articulate such claims, the Left needed a political language that would counter austerity by asserting that the option of sharing abundance has greater present value at precisely those moments when the liquidity of capital markets is subject to greater political risk.

But where is a new language of historical justice to be found? The jumping-off point for our projected future work was Randy's enthusiasm with an argument I made in *After Evil*, that the effect of late-twentieth-century human rights discourse had been to take the option of historical justice off the table in ways that cleared the path for global financialization. Post–Cold War humanitarianism understood itself, I said, as the compromise that must necessarily follow an era of intractable struggle to right the wrongs of the past stemming from slavery, apartheid, fascism, and even the concededly brutal origins of capitalism. Here, establishing a moral agreement that the past is evil would come at the price of reaching political consensus that the evil is past. This meant, I said, that cumulative gains from past evil that continue into the present are not seen to perpetuate it and thus no longer need to be justified in order to persist.

The alternative to such a compromise, we both thought, was to describe historical justice as an option that has what options valuation theory would consider to be "time value," even when it cannot yet be exercised. In options theory time value is normally enhanced during periods when expected volatility rises, especially when such a change is sudden. If justice is to be valued as an option, its value would rise, for example, at moments that seem to necessitate state intervention to restore confidence in the financial system. We thus saw an opportunity to use options valuation theory to think about how historical justice could be continuously valued in the present and what political strategies might be used to increase its present value in moments of greater financial instability.

This is where we were when Randy died in 2015. Since then, I have moved forward, and *Justice as an Option* is the result. It is probably less optimistic than our projected jointly authored book on the "politics of abundance" would have been: Randy's effect on me was always to inspire the hopefulness that a book about abundance would require. And there may well be more technical apparatus in my eventual book than there would have been in the one we planned, which would no doubt have come out sooner.

But whatever virtues it may lack because of Randy's absence, *Justice as an Option* does advance the kind of analytical framework we hoped to develop together. It rebuts, without qualification or apology, the argument that capitalism cannot afford historical justice at times of financial instability and claims that it is precisely at such times that the financial system demonstrates how much justice it can afford and how much it could be made to pay toward achieving it. My project in the new book is to fund historical justice out of the premium that could have been collected for sustaining the cumulative value of financial assets that originated and compounded through historical injustice.

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In concluding my homage to Randy, the time has come to briefly enumerate some of the basic financial ideas that underlie *Justice as an Option*. Several of these revolve around the concept of liquidity in finance as a necessary component of value as it is understood in today's financialized economy:

- Liquidity is a defining characteristic of existing markets—to ascribe it to them is to say that they exist. But liquidity is also a product supplied by financial markets to create a market in an underlier for which no market otherwise exists.
- So, liquidity itself can also be priced separately in and through financial markets that create and trade derivatives. An asset's "liquidity premium" on the derivatives market can thus be defined as the price one would pay for an option to convert it into cash immediately and at par with its market price. The pricing of liquidity premiums in a market for derivatives is thus a measure of the implied cost of accumulating financial value in something other than cash at any given moment.[23]
- Liquidity and optionality are therefore linked as forms of value specific to financial markets. "Liquidity preference" was, as I've said, the first and

most fundamental form of optionality identified by Keynes in his study of economic systems as a whole—the field we now know as macroeconomics.[24] It measures the premium that people are willing to pay to hold cash that pays no interest rather than, for example, holding a bond issued by the same government with the same degree of safety that does pay interest.

- The measurable existence of liquidity preference is thus Keynes's tautological answer to what makes money alone constitute a payment and is the only reason that investors would ever demand to be paid and hold money rather than receive interest on a Treasury security with identical risk characteristics. Valuing money for its liquidity alone is the kind of bare fact without which there would be no market in anything else.
- The higher interest rates an investor could thus expect on long-term bonds derive from the expected volatility (variance) of short-term interest rates during the term of the longer bond. So, the preference for pure liquidity—non-interest-bearing cash—would be priced based on the interest earned by bonds ranging in maturity from short to long. These in turn could be discounted in the current ("spot") market that converts them into cash based on their lesser degree of liquidity relative to cash.[25]
- Mid-twentieth-century Keynesian planners used this "term structure of interest rates" to regulate sudden changes in liquidity preference—for example, a flight to cash—that could cause economic collapse due to lower "marginal propensities" to consume and invest.[26]
- During the last quarter of the twentieth century, financial economists extrapolated from the Keynesian approach to managing liquidity preference in the public sector to develop a more general theory for pricing all options in private-sector financial markets. The key parameters in this expanded view of options pricing theory were the term (time period) of the option, the expected volatility of the underlying market during that term, and the current risk-free interest rate on short-term government debt. The most important of these three parameters was volatility. It was exponential in the options pricing formula, whereas time value and the price of liquidity were linear.
- In transposing the government's technique for pricing liquidity into a general theory of pricing all privately created options, it became increasingly common for financial economists to argue that a complete derivatives market pricing of every possible future contingency eventually could take over most, if not all, of the planning and regulatory functions performed by the Keynesian state.[27] This view assumed greater importance as private-sector financial markets became global while Keynesian public-sector planning was limited to those remaining aspects of a national economy that the state could manage.

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The next set of foundational ideas in *Justice as an Option* are derived from modern options theory itself and the role of hedging volatility in the private-sector pricing of financial assets:

- The options pricing formula that sparked the late-twentieth-century revolution in financial theory was implicitly a technique for commensurating publicly and privately created securities. The basic idea of finance is to develop a single framework that treats both public and private debt as substitutes for money and as assets that can be liquidated when money itself is required by the discipline of payments.
- There is in options pricing theory an explicit orientation toward allowing the private-sector financial markets to manufacture risk-free (AAA) securities that can serve as safe collateral alongside public debt. Implicitly, the theory also defines what it could cost for the public sector to guarantee the synthetically risk-free securities created in private-sector financial markets and thus to support the asset valuations that have been collateralized by them.
- The options pricing formula itself operates by means of equating the expected return on a portfolio that includes risky, privately created assets to the risk-free return on a government bond. That composite portfolio is thus defined as privately manufactured synthetic public debt in which the option components can perform the theoretical function of completely removing the risk of not holding a government bond. This means that the formula can algebraically be rebalanced to solve for the price of the option component of the portfolio that would make its expected return instantaneously equivalent to that of a portfolio consisting of only risk-free short-term government bonds.
- For such an equivalence to continue to hold, however, the option must be continuously repriced as a component in a theoretically riskless portfolio that also reflects changes in volatility and risk-free interest rates as the time to expiration elapses. The formula does this by reflecting changes in volatility and liquidity preference as changes in option prices.
- The central innovation of the options pricing formula—and of all the modern finance theory that followed from it—is to compare the volatility (added risk) of nongovernment credit with the nominally risk-free return provided by government securities.
- From the standpoint of modern finance theory, the "risk-free rate" functionally defines the premium government pays to private investors for holding its debt instead of hoarding non-interest-bearing money, which is defined as the only means of payment that does not require posting collateral or paying a premium to guarantee liquidity.[28]
- The options pricing formula thus functions with respect to the whole of modern finance theory as a technology for originating options without thereby taking market risks in whatever quantity the financial market demands. These options, designed by financial engineers, can then be used by subsequent buyers and sellers to hedge or leverage market risks, and by options traders (market *makers*) to price market risks.
- The options pricing formula, and the modern financial theory that it spawned, allows engineers to design financial instruments, such as forward swaps of interest rates, that can be traded—sometimes with an initial

premium of zero—and subsequently priced to transfer risk to the counterparty.[29] A by-product of such techniques for breaking out and pricing the risky component of any asset or transaction is to produce as its remainder a theoretically risk-free asset that is, in effect, a privately created synthetic government bond designed to trade at par with real government bonds. But this is the case only because the main formulas of financial theory assume away the elements of political risk that arise when the effects of finance are transposed into the register of justice. These are the major focus of my forthcoming book.

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The financial crisis of 2008 took the form of a large liquidity premium on trading huge amounts of AAA-rated debt that had been created synthetically as a by-product of securitizing mortgages and other risky loans.[30] Such synthetically risk-free instruments that were considered equivalent to public debt had been created in large quantities before the crisis came to be classified as "toxic assets" after financial markets collapsed. But the creation of these assets was not, as some economic journalists suggested, merely an aberration of financial innovation run amuck.

In its core applications, the options pricing formula works by showing precisely how much such privately created, and fully tradable, financial instruments would be worth at a moment when all identifiable risk components are stripped out, *except* for the political-component liquidity risk. Based on the formula, what we really know after 2008 is that the ineliminable component of liquidity risk is ultimately political. It cannot be hedged away by financial means alone or assumed to be nonexistent merely because it lies outside of the options pricing model.

The state's implicit role is thus to be the authority standing outside of the financial sector to backstop that sector's model of itself. It performs this role by guaranteeing to swap publicly created debt at par with the synthetically equivalent, versions of it created in private-sector capital markets. At moments when financial market liquidity implodes, the public sector provides private-sector financial markets with as much safe collateral as they need to forestall the demand that privately created debt instruments be repaid in cash that the issuing government would otherwise have to print, thereby causing runaway inflation. The fundamental function of publicly created debt instruments in private-sector capital markets is thus to make privately created debt instruments liquid at moments when they would otherwise not be—thereby validating the liquidity of private debt to avoid the systemic alternative of asset price deflation and consumer price inflation that could occur if private credit markets were allowed to collapse.[31]

This government rationale of backstopping the financial sector is in effect a retreat from upholding a theoretical commensuration of public and private credit theoretical equivalence into a discretionary government policy. It reflects an assumption, widespread across the policy spectrum, that privately created debts must seem to be repayable so that they can remain liquid in the market for credit-based assets because, if all these debts had to be repaid at once, there could not be enough currency in circulation to accommodate such a flight into cash, and because whatever new currency the government might print to accommodate such increased demand would soon become nearly worthless. Ultimately, privately created debts must appear to be potentially repayable so that they do not have to be repaid in state-created currency that would cease to be sound, thereby reducing the value of the debts it is used to pay.

But synthetically risk-free privately created debt instruments are not government obligations in any sense other than that they are posited to be equivalent to public debt by the financial models used to manufacture and price all other privately created assets. This means that they will be, essentially, worthless unless their model-based equivalence to government bonds in financial theory is performed by the state and thus made retroactively true.

In 2008, this took the form of swapping toxic (i.e., unpriceable) financial assets for US Treasury obligations at par in whatever quantities were necessary to stabilize financial markets, especially the credit markets. Such a swap could be accomplished in the necessary quantities only because US Treasury obligations paid a risk-free interest rate that was near zero. But bondholders accepted this low rate on the understanding that such increased government borrowing would not be inflationary because the dollars that the government borrowed out of the economy would not be circulated back into it as additional government spending. There would, in other words, be a rescue of the financial sector without a broader major economic stimulus. The name for this policy is, of course, *austerity*, which is quite clearly a way of preserving the compounding effect of capitalist accumulation on past injustice while valuing the option of justice at *zero*. Austerity is effectively opposed by raising the value of justice as an option that must be bought out by those who want the state to preserve the cumulative value of capital.

In saying this, I need to acknowledge here that the financial sector's mode of producing new assets out of debts that will never be repaid presents a paradox that many Marx-inflected writers tend to describe as itself a scandal.[32] I here intend to supplement mainstream Marxism by exhibiting the connections between the liquidity of private credit markets and the soundness of public money as a site to be newly politicized, but not necessarily in a way that puts the Left's oppostion to bailouts on the side of sound money conservatives.[33]

Based on the approach to Marx that I shared with Randy, my interpretation illustrates how much our politics at moments of capitalist crisis came to be about wealth preservation and accumulation, which made it imperative to suppress remaining claims to historical justice. This meant that, if the heightened value of the option of historical justice at such a moment were to be recognized, there would have to be a financial price for rolling over (renewing) that option in order to keep capital markets—and especially credit markets—liquid. Based on this interpretation of 2008, Randy and I concluded that in principle historical justice could be priced as an option on the entire cumulative value of past injustice that was preserved by the liquidity guarantee provided by the state.

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Whatever Randy might have thought, this is the conclusion that I now reach. It may not be a "politics of abundance" in his full sense, but it is an argument that greater justice can be funded by extracting a premium for preserving the abundance that there is. In this respect I argue, using Randy's phrase, for a conception of historical justice that imposes a "derivative logic" on the underlying wealth of society—that is, the logic of a contingent claim. Historical justice as I now conceive it is thus what Randy would have called a form of "derivative sociality."

Justice as an Option directly channels Randy's use of the concept of derivative sociality when I explicitly compare the Peircean concept of "interpretants" to his conception of the derivative. As a semiotic idea, the interpretant stands in a separate (third) relation to another semiotic relation, such as that between a sign and its object. Insofar as the interpretant is mental, it can be used to symbolize that other relation, to index it, to measure it, to value it, and so forth. An interpretant, however, need not be mental—a thought, a symbol, or a word. It can also be a movement, a feeling, a body, a created object—or in both its broadest and its narrowest sense, an "option." So, "enminding" sociality is only one way in which interpretants work. They simultaneously "embody" and "enworld" the social in ways that Randy would have connected to the kinestheme and to the climate.[34]

Before his death, Randy was working toward a conception of derivative sociality, generalizing the option form, that would resemble notion of distributed agency captured in recent sociolinguistics.[34] He was coming to see creation and valuation of options not merely as the production of abstractions/tokens/fetishes of underlying social relations but also, potentially of vehicles for interpreting, valuing, and politicizing them in the ways that he envisioned. This is how I eventually came to see historical justice as an interpretant of the relation between historical injustice and present wealth gaps. It is also why I see historical justice as an option that has value even when it cannot be exercised.

For me, the political question of justice today is how to harvest the benefits that came from compounding, rather than reversing, past injustice. If these cumulative benefits cannot ultimately be reclaimed as a collective product, then all that bad history will have been a waste. In my view, what can make the exercise of democracy matter in times of financial crisis is public willingness to assert and increase the value of justice as an option. The converse of this point is that denying the value of justice as an option at such moments—for example, through austerity policies—is a strategy for making democracy no longer matter and should be addressed and resisted as such. A first step, I think, would be to treat historical justice now—the revolutionary idea of it—for analytical purposes as an inherently contingent claim, the value of which remains in play whether or not, as a political matter, the revolutionary option can be exercised by force.

My forthcoming book concludes that it is liquidity risk, and the resulting need to back all private debt with public debt, that provides the foundation for treating historical justice as an option that can be put back on the table of democratic politics. Because a crisis in liquidity threatens to bring about a disaccumulation of all wealth, much of which was created by allowing the cumulative benefits of past injustice to persist and increase, we can now regard the present value of justice claims as the premium that can be extracted for rolling them over and thus preserving the continued liquidity of accumulated wealth. To say that restoring the liquidity of asset markets should come at a political price is to say that there is an open question about how and to whom money should be paid in order to restore capital market liquidity.

In 2008–9 a subset of financial institutions—the survivors—were able to harvest the liquidity premium, essentially, by threatening to put themselves out of business unless they got everything they needed to restore their confidence in themselves. It was clear to them at that time that there were few, if any, democratic counterforces to drive a hard bargain by raising the question of historical justice. So a high premium was paid for restoring liquidity, but that payment was hidden at the time behind government policies that implicitly nationalized, and then reprivatized, the macroeconomic liquidity risks that had originated in the private sector.

An alternative approach, even then, would have been to view historical justice as potentially a contingent claim on the entire cumulative value of past injustice that was to be underwritten by government guarantees. Rather than allowing all that wealth to *dis*accumulate—that is, to vanish—it would have been possible to use the liquidity premium to fund public programs, and perhaps direct endowments, that could have reduced the socioeconomic gaps that are compounded by capitalism, seen as a mode of accumulation and not only as a mode of production.

Based on this formulation, I can summarily state my culminating insight of the book that resulted from working with Randy Martin. It comes down to a basic equivalence, arising from the fact of a high liquidity premium provided to financial markets from their political "outside," the state. This equivalence is simple to state conjoining the language of finance with the language of democracy:

- The macroeconomic *liquidity premium* that preserves the value of wealth accumulated in financial form has a value identical to
- The *political premium* that democracy can extract at that moment for rolling over—renewing—historical justice as the option of disaccumulating the benefits of past injustice that are held in financial form.

By asserting this equivalence, it may be possible to claim the benefits from ethically grounded historical arguments that might, or might have, justified a revolution—but without having to go through one. To me, this is a path worth pursuing, and one on which I will miss Randy's brilliance, guidance, and companionship.

Notes

A version of this article was originally presented as a keynote address at the Ninth International Critical Finance Studies Conference (see Meister, "Randy Martin on Financialization"). I am grateful for editorial suggestions from Aaron Wistar, Rohit Goel, Alok Rai, and Lisa Simeone and to Ben Lee, Dick Bryan, Ed LiPuma, and Jon Beller for years of conversation about Randy.

1. The text refers to an earlier view of our project as joint keynotes to the Fifth International Critical Finance Studies Conference at the University of Stockholm (August 2013). For an earlier account of my work with Randy, see Meister, "Plenty for Everyone."

2. Martin, *Financialization of Daily Life*; Martin, *Empire of Indifference*. See also Jameson, *Postmodernism*; Jameson, "Culture and Finance Capital"; and Meister, "Marx on Finance."

3. Marx, "Fragment on Machines." This language has been further developed by the autonomist strand of Italian Marxism. See Tomba and Bellofiore, "'Fragment on Machines'"; and Virno, "General Intellect."

4. Martin, "Thinking Finance Otherwise"; Martin, "Dance and Finance"; Martin, "Precarious Dance"; Nestler, *Contingent Optionality*.

5. Our reading of contemporary financial macroeconomics aimed to make its insights directly useful to anticapitalist political movements in ways that resembled what Marx himself did in making classical political economy accessible to a rising working class. For extended discussion of this approach, see Meister, *Political Identity*.

6. We later learned from our collaborators—Ben Lee, Ed LiPuma, and Arjun Appadurai—that money itself functions in exchange both as a token (or medium) that changes hands (whether physically or virtually) and as a type through which the exchange is represented as occurring at a "price."

7. Keynes, "The General Theory of Employment," 212–19.

8. See Muniesa, "Political Vernaculars of Value Creation."

9. Brown, *Undoing the Demos*; Cooper, "Insecure Times"; Cooper, "Turbulent Worlds"; Cooper, "Complexity Theory." Cf. Foucault, *Birth of Biopolitics*.

10. Lilley and Papadopoulos, "Material Returns"; Mezzadra and Neilson, *The Politics of Operations*, chap. 4.

11. Martin, "Precarious Dance."

12. I take up those political reasons in detail in my forthcoming book. For now, I will just say they had to do with the political confusion sown by advocates of the 2008–9 bailout who gave assurances, on the one hand, that "fundamental value" in the "real economy" was not affected by the sudden illiquidity of capital markets, while on the other hand issuing dire warnings that "fundamental value" in the "real economy" would indeed be irreparably damaged if the liquidity of financial markets did not immediately recover. For example, shortly after the outbreak of the subprime mortgage crisis, Treasury Secretary Hank Paulson spoke of the "need to increase confidence and respond to market concerns by providing assurances of their access, if necessary, to liquidity and capital on a temporary basis." Later in the same speech, he reassured the public that the "underlying economy" was fundamentally sound: "The United States is on the right path to resolving market disruptions and building a stronger financial system. Increasingly, our capital markets will reflect the underlying economy, and here we are fortunate that our long-term fundamentals are strong." Paulson, "Hank Paulson's Speech."

13. Berle and Pederson, *Liquid Claims*, 60.

14. Our friend and collaborator Dick Bryan has reminded me that credit is an acknowledged, but undeveloped, element in Marx's account of the relation of production and consumption. Marx writes: "In every country where the capitalist mode of production prevails, it is the custom not to pay for labour-power until it has been exercised for the period fixed by the contract, for example, at the end of each week. In all cases, therefore, the worker advances the use-value of his labour-power to the capitalist. He lets the buyer consume it before he receives payment of the price. Everywhere the worker allows credit to the capitalist. That this credit is no mere fiction is shown not only by the occasional loss of the wages the worker has already advanced, when a capitalist goes bankrupt, but also by a series of more long-lasting consequences. Whether money serves as a means of purchase or a means of payment, this does not alter the nature of the exchange of commodities. The price of the labour-power is fixed by the contract, although it is not realized till later, like the rent of a house. The labour-power is sold, although it is paid for only at a later period." Marx, *Capital*, 278–79.

15. Mehrling, "Financialization and Its Discontents"; Minsky, *Induced Investment and Business Cycles*, 96.

16. Marx and Engels, *Communist Manifesto*, 219.

17. Martin, "From the Critique of Political Economy"; Meister, "Liquidity."

18. "The yeomanry are absolute owners of the soil, on which they tread; and their character has from this circumstance been marked by a more jealous watchfulness of their rights, and by a more steady spirit of resistance against every encroachment, than can be found among any other people." Story, *Commentaries*, 160.

19. Otherwise, there would be an opportunity to make a risk-free profit by simultaneously short selling the more expensive commodity and buying the cheaper one. If such a risk-free trade were possible, it would not need to be financed, and its magnitude could be infinitely large because it would not be limited by the availability of capital funding. The law of one price thus explains the need for capital in capitalism by ruling out the possibility of a risk-free profit that someone without capital could seize. The need for capital to extract surplus value in capitalism is what

explains the economic and social power of capitalists. Marx's general formula for capital, $M–C–M_1$ (in which M is an amount of money, C is a commodity, and M_1 is an amount of money greater than M) expresses the law of one price in this apparently paradoxical form so as to ground the possibility of capitalism as the overcoming of that which it defines as otherwise impossible. On the one hand, $M–C–M_1$ expresses the possibility of making a simultaneous riskless profit: nonarbitrage requires that $M = M_1$ with respect to any C that does not have the additional characteristics of a financial asset. But if C is capital, then it is indeed possible that $M_1 > M$. The additional characteristic that adds value to commodities that are capital is optionality, most centrally in the form of liquidity, which is the option to convert it into cash as necessary to satisfy the discipline of payments.

20. Relative surplus value, as we interpret it, was anticipated in Ricardo's theory of ground rent. Here gradients of fertility in farmland made land a good investment—a vehicle of rapid capital accumulation—as the demand for agricultural products grew. This logic extended to Marx's account of gradients in the productivity of machinery, which made labor-saving technology and raw material a good investment as the demand for manufactured products grew. But going beyond Marx, we concluded that a similar logic extends into today's manufacture of financial products. Meister, "Reinventing Marx."

21. The point of this analogy is that the need of the capitalist value form to expand labor force participation (absolute surplus value) has an "organic" tendency to undermine itself by reducing capitalism's reliance on labor time per unit as production expands (relative surplus value). Marx, *Capital*, chap. 25. For a brief and early statement of view, see Meister, "Marx on Finance." For a sophisticated account of the self-subverting tendency of Marx's "value form," see Postone, *Time, Labor, and Social Domination*, chaps. 7–9.

22. Marx, *Capital*, chap. 25.

23. Holmström and Tirole, *Inside and Outside Liquidity*.

24. Keynes, *General Theory of Employment, Interest, and Money*, chap. 13.

25. Hicks, "Mr. Keynes and the 'Classics'"; Tobin, "Money, Capital, and Other Stores of Value."

26. Keynes, *General Theory of Employment, Interest, and Money*, chaps. 13–14; Tobin, "Liquidity Preference"; Tobin, "Money and Finance."

27. Arrow and Debreu, "Existence of an Equilibrium."

28. Desan, "The Constitutional Approach to Money."

29. Neftci, *Principles of Financial Engineering*, chaps. 1–9.

30. Posner, *Last Resort*.

31. Minsky, *Stabilizing an Unstable Economy*.

33. Bernanke, *Essays on the Great Depression*; Bernanke, *Courage to Act*; Blinder, *Central Banking*.

34. Silverstein, "Indexical Order"; Silverstein, "Shifters, Linguistic Categories, and Cultural Description"; Kockelman, *Agent, Person, Subject, Self*; Kockelman, "Linguistic Anthropology and Critical Theory"; Kockelman, "Semiotic Ontology of the Commodity"; Kockelman, "From Status to Contract Revisited." Note, however, that Kockelman is here concerned with market prices as interpretants and does not discuss options.

35. See, e.g., Enfield and Kockelman, *Distributed Agency*.

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